

# **JEFFERSON, URIAN, DOANE & STERNER, P.A.**

## **INDIAN RIVER SCHOOL DISTRICT**

### **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

**JUNE 30, 2006**

**FIELDWORK END DATE: MAY 16, 2007**

---

# TABLE OF CONTENTS

---

Independent Accountant's Report on Applying Agreed-Upon Procedures	1 - 2
Appendix A: Schedule of Findings & Recommendations	3 - 7
Appendix B: Schedule of Prior Year Findings	8 - 11
Appendix C: Schedule of Construction Projects	12 - 14
Distribution of Report	15

DAVID R. URIAN, CPA  
DAVID C. DOANE, CPA  
CHARLES H. STERNER, JR. CPA, CVA  
SHELDON L. FORNEY, CPA  
JAY M. STEVENS, CPA, PFS  
ROGER R. REED, CPA  
ELAINE E. GRAVES, CPA

TRUITT W. JEFFERSON, CPA, DIRECTOR  
RETIRED

ANITA Y. SMITH, MEd, DIRECTOR

## Independent Accountant's Report on Applying Agreed-Upon Procedures

Dr. Susan S. Bunting  
Superintendent  
Indian River School District  
31 Hoosier Street  
Selbyville, Delaware 19975

The Honorable Valerie A. Woodruff  
Secretary, Department of Education  
Townsend Building, Suite 2  
401 Federal Street  
Dover, Delaware 19901

We have performed the procedures enumerated below, which were agreed to by Indian River School District; the Office of Auditor of Accounts; and the State of Delaware Department of Education, solely to assist the specified parties in evaluating the School District's compliance with criteria from the State of Delaware Fixed Asset Policy Manual, the State of Delaware Department of Education School Construction Technical Assistance Manual, the Delaware Code, and the State of Delaware Budget and Accounting Manual relative to the school construction projects administered by the School District for the year ended June 30, 2006. Indian River School District's management is responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* (2003) issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Determine if the School District's policies and procedures for identifying, tracking, and recording capital assets are adequate.

Upon completion of Indian River School District's construction program and project checklists, our procedures resulted in finding(s), see *Appendix A*.

2. Determine whether the School District's construction project records and files (current and prior fiscal years) are accurate.

Upon completion of Indian River School District's construction program and project checklists, our procedures resulted in finding(s), see *Appendix A*.

3. Determine if expenditures are accurately stated and are made in accordance with the State Fixed Asset Policy Manual and the intent of the project scope mandated by the General Assembly, the Department of Education, and the Local Board of Education.

Upon completion of Indian River School District's construction program and project checklists, our procedures resulted in finding(s), see *Appendix A*.

4. Determine whether the School District's construction project records and files include only active construction projects as of June 30, 2006. Ensure that completed projects have been appropriately closed out of construction and added to the State Fixed Asset system.

Upon completion of Indian River School District's construction program and project checklists, our procedures resulted in finding(s), see *Appendix A*.

5. Prepare the School District's Schedule of Construction Projects for Fiscal Year 2006.

See *Appendix C*.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Indian River School District management and Board Members, the Office of Auditor of Accounts, and the State of Delaware Department of Education, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, the State Treasurer's Office, and the Office of Auditor of Accounts.

*Jefferson, Urian, Doane & Sterner, P.A.*

Georgetown, Delaware  
May 16, 2007

---

# SCHEDULE OF FINDINGS & RECOMMENDATIONS

---

## APPENDIX A

---

### ***Procedure Agreed Upon #1:***

#### ***Finding 06-01:***

During completion of Indian River School District's construction program, it was noted that the School District did not have written policies and procedures in accordance with the State of Delaware's Fixed Asset Accounting Policy Manual II.B. and II.C. The Manual requires each State organization to establish written procedures and controls necessary to implement and monitor prescribed fixed asset accounting and reporting policies, guidelines, and standards. School District personnel were unaware of this requirement. Indian River School District could potentially be exposed to fraud, misuse of appropriated funds, and improper capitalization of construction work-in-progress and completed projects when adequate policies and procedures are not in place.

#### ***Recommendation:***

Indian River School District should establish written procedures to ensure that the State's fixed assets are properly monitored, identified, and recorded.

#### ***School District's Response:***

*"The Indian River School District will comply with recommendation of the audit firm; however, this commentary is ambiguous, inflammatory, arbitrary and capricious in the sense that the Business & Finance Operation has been fulfilling the various objectives of the fixed asset accounting and reporting policies for a multitude of fiscal years especially during Construction Work in Process and Finished Good stages of inventory valuation. These activities have been completed and reviewed since FY2002.*

*However, it should be noted that the punitive nature of this commentary is partially attributed to the fact that in FY2002 the firm of Pigg, Krah, Stern & Co., PA were the practitioners performing these construction audit compilations; FY2003 the firm of Jefferson, Urian, Doane and Sterner were the practitioners performing these construction audit compilations; FY2004 the firm of KPMG performed Preliminary Review of Construction-Work In Process compilations; and FY2005-FY2006 the firm of Jefferson, Urian, Doane and Sterner were the practitioners performing these construction audit compilations.*

*Consequently, it is very clear that the multiple auditing firms as well as the State of Delaware have allowed the promulgation of unclear, inaccurate interpretations of the policies and procedures of the fixed asset requirements and it was previously communicated to the various state agencies that the 'local construction audit firms' do not have the same interpretations and there is not any significant authority, including the Delaware Department of Finance, on when specific construction project inquiries should be submitted to and a timely response be forthcoming."*

---

# SCHEDULE OF FINDINGS & RECOMMENDATIONS

---

## APPENDIX A

---

### ***Procedure Agreed Upon #2:***

#### ***Finding 06-02:***

During completion of Indian River School District's project checklist for Indian River High School Construction project, it was noted that the School District failed to notify the Department of Education, the State Budget Director, and the State Auditor upon approval of the certificate of occupancy as required by the School Construction Technical Assistance Manual, §2.0, Paragraph 5.3. This was due to an oversight by the School District personnel. Failure to comply with State of Delaware provisions, including the School Construction Technical Assistance Manual, could result in fraud, errors and irregularities.

#### ***Recommendation:***

The Indian River School District should notify the required State agencies of occupancy of the Indian River High School Construction project.

#### ***School District's Response:***

*"The Indian River School District will comply with the recommendation of the audit firm and submit a separate written communication to the Department of Education, the State Budget Director, and the State Auditor. However, it should be further noted that the Delaware Department of Education conducted a custodian unit analysis for the Indian River High School Construction Project with additional custodial units being allocated and budgeted; the Fixed Asset Accounting Inventory via SPOTS was submitted to the Office of the Budget Director; and the Office of the State Auditors have commenced how many CWIP Audit Reviews knowing that the building has been fully occupied and utilized since the building dedication. The Indian River School District cannot imagine or believe how building occupancy notification could result in fraud as eluded by the aforementioned commentary."*

#### ***Finding 06-03:***

During completion of Indian River School District's construction program and project checklists for Sussex Central High School Construction project and Indian River High School Construction project, it was noted that the School District failed to submit the archival-quality copies of architectural and/or engineering drawings to Delaware Public Archives for preservation and safekeeping as required by 29 Del. C. §507(b). This was due to an oversight by the School District personnel. Noncompliance with provisions of the Delaware Code could potentially cause a delay in receiving future State funding.

#### ***Recommendation:***

The School District should submit the archival-quality copies for Sussex Central High School Construction project and Indian River High School Construction project to Delaware Public Archives as soon as possible.

---

# SCHEDULE OF FINDINGS & RECOMMENDATIONS

---

## APPENDIX A

---

***Finding 06-03:***

***School District's Response:***

*"The Indian River School District will comply with the recommendation of the audit firm."*

***Finding 06-04:***

During completion of Indian River School District's construction program and project checklists for Sussex Central High School Construction project and Indian River High School Construction project, it was noted that the School District had not submitted a copy of the electronic AutoCAD files to the Department of Education within thirty calendar days after completion of the new school as required by the School Construction Technical Assistance Manual, Section 2.0, Paragraph 5.4. This was due to an oversight by the School District personnel. Noncompliance with State of Delaware provisions, including School Construction Technical Assistance Manual, could potentially cause a delay in receiving future State funding.

***Recommendation:***

Indian River School District should submit a copy of the electronic AutoCAD files for Sussex Central High School Construction project and Indian River High School Construction project as soon as possible to the Department of Education.

***School District's Response:***

*"The Indian River School District will comply with the recommendation of the audit firm."*

***Finding 06-05:***

During completion of Indian River School District's project checklist for the Indian River education complex project, it was noted that the School District did not properly encumber a \$ 764,538 obligation as of June 30, 2006. School District personnel inadvertently only encumbered \$ 736,979 of the obligation, thereby understating the total encumbrance by \$ 27,559. Budget and Accounting Policy Manual VI.B.1. requires that correct amounts be charged at the time of issuance of the purchase order.

***Recommendation:***

Indian River School District should complete an encumbrance adjustment for \$ 27,559 to correct purchase order 951396216.

***School District's Response:***

*"The Indian River School District will comply with the recommendation of the audit firm."*

---

# SCHEDULE OF FINDINGS & RECOMMENDATIONS

---

## APPENDIX A

---

### ***Finding 06-06:***

During completion of Indian River School District's project checklist for the Indian River High School Construction project, it was noted that the School District's project construction files did not contain the certificate of occupancy required by the State of Delaware Budget and Accounting Policy Manual, XII.D.3.p. This was due to an oversight by School District personnel. Failure to comply with State of Delaware provisions, including the Budget and Accounting Policy Manual, could result in fraud, errors and irregularities.

### ***Recommendation:***

Indian River School District should properly file the certificate of occupancy for Indian River High School Construction project.

### ***School District's Response:***

*"The Indian River School District will comply with the recommendation of the audit firm."*

### ***Procedure Agreed Upon #3:***

### ***Finding 06-07:***

During completion of Indian River School District's construction program, it was noted that the School District did not properly record Construction Work In Progress (CWIP) in the State's Fixed Asset Accounting system as required by the Delaware Fixed Asset Accounting Policy Manual, Section IV.B.3. The School District had believed they complied with the State's policies on capitalization. The School District's 2006 GAAP package for Fund 300 should reflect the following: beginning balance of \$ 1,815,889, additions of \$ 18,175,770, zero deletions, and an ending balance of \$ 19,991,659. Fund 300's beginning balance was understated by \$ 1,131,760, additions were overstated \$ 805,468, deletions were overstated \$ 1,686,932 and the ending balance was understated by \$ 2,013,224 on the GAAP package.

### ***Recommendation:***

Indian River School District's 2007 GAAP package should reflect the \$ 2,013,224 correction in the "Adjustment to Beginning Balance" column on the "Summary of Construction Work in Progress (CWIP)."

### ***School District's Response:***

*"The Indian River School District will comply with the recommendation of the audit firm."*



---

# SCHEDULE OF FINDINGS & RECOMMENDATIONS

---

## APPENDIX A

---

### ***Procedures Agreed Upon #4:***

#### ***Finding 06-08:***

During completion of Indian River School District's construction program, it was noted that the School District did not properly capitalize betterments for Sussex Central High School and Indian River High School projects in accordance with the Delaware Fixed Asset Accounting Policy Manual. School district personnel were aware of the problem and were attempting to receive guidance from the Division of Accounting on the matter. The responses were not received until February 23, 2007. The School District received adjustments to capitalize these betterments from the Division of Accounting, but was not given any detail of the adjustments. The Division of Accounting's adjustments recommended capitalizing \$ 1,890,763 for Sussex Central High School and \$ 1,304,108 for Indian River High School as of June 30, 2006. Fixed assets were understated at June 30, 2006 for Indian River High School and Sussex Central High School.

#### ***Recommendation:***

Indian River School District should obtain the detail of adjustments from the Division of Accounting, review the calculation for accuracy, and then properly capitalize the betterments for Sussex Central High School and Indian River High School projects.

#### ***School District's Response:***

*"The Indian River School District will comply with the recommendation to capitalize the betterments for Sussex Central and Indian River high schools."*

---

# SCHEDULE OF PRIOR YEAR FINDINGS

---

## APPENDIX B

---

The following schedule summarized the prior year findings and the status of the prior year findings.

Prior Year Finding	Recommendation	Status of Prior Year Finding
05-01 - During completion of Indian River School District's construction program and project checklists for Lord Baltimore renovations, it was noted that approval of the construction plans, specifications and cost estimates from Division of Facilities Management was not obtained prior to bid advertisements as required by 29 Del. C. §7419(a). Personnel were unable to determine if such approval was requested.	Procedures should be established by Indian River School District to ensure that proper approvals of construction plans, specifications and cost estimates are obtained in accordance with the guidelines established by the State of Delaware.	Implemented.
05-02 - During completion of Indian River School District's construction program and project checklists for Lord Baltimore renovations, it was noted that approval of the construction project was not obtained from the Architectural Accessibility Board as required by 29 Del. C. §7308(a). Personnel were unable to determine if such approval was requested.	Procedures should be established by Indian River School District to ensure that proper approvals from the Architectural Accessibility Board are obtained in accordance with the guidelines established by the State of Delaware.	Not implemented.
05-03 - During completion of Indian River School District's construction program and project checklists for Phillip Showell Elementary renovations, it was noted that the School District failed to notify the Department of Education, the State Budget	Indian River School District should notify the required State agencies of final completion of this project.	Implemented.

# SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

Prior Year Finding	Recommendation	Status of Prior Year Finding
05-03 - Director, the Insurance Coverage Office, and the State Auditor of final completion as required by the School Construction Technical Assistance Manual, §2, paragraphs 5.2 and 5.3.		
05-04 - During completion of Indian River School District's construction program and project checklists for Phillip Showell Elementary renovations, it was noted that the School District failed to submit the archival-quality copies of architectural and/or engineering drawings to Delaware Public Archives for preservation and safekeeping as required by 29 Del. C. §507(b).	The School District should submit the archival-quality copies to Delaware Public Archives and establish procedures to ensure the copies are submitted upon completion of all projects.	Not implemented.
05-05 - During completion of Indian River School District's construction program and project checklists for New Indian River High School construction, it was noted that the School District had not maintained the proper certificates outlined by contract specifications such as certifications on concrete tests, metal stress and/or special tempers, alloys, etc. on file as required by the State of Delaware Budget and Accounting Policy Manual, XII.D.3.q.	The Indian River School District should obtain the proper certificates for this project and establish procedures to ensure that proper certifications outlined by contract specifications are maintained for each construction project.	Implemented.

---

# SCHEDULE OF PRIOR YEAR FINDINGS

---

APPENDIX B

---

Prior Year Finding	Recommendation	Status of Prior Year Finding
05-06 - During completion of Indian River School District's construction program and project checklist for Frankford Elementary renovations, New Sussex Central High School Construction, New Indian River High School Construction, East Millsboro Elementary renovations, and Georgetown Middle School renovations, it was noted that the School District failed to submit the proper documentation to the Department of Education as required by the School Construction Technical Assistance Manual, §2, paragraph 7.2.1. The manual states that submission of a change order must include the following documents: completed purchase order as applicable, local board of education minutes identifying and approving the changes, completed AIA document G701, and correspondence that gives a breakdown in materials mark-up and other expenses. Personnel were only submitting the purchase order modifications or encumbrance adjustments.	Procedures should be established by the Indian River School District to ensure that proper documentation accompanies purchase orders submitted to the Department of Education.	Implemented.

---

# SCHEDULE OF PRIOR YEAR FINDINGS

---

APPENDIX B

---

**Status Key:**

Implemented

The concern has been addressed by implementing the original or an alternate corrective action.

Not Implemented

The corrective action has not been initiated

Partially Implemented

The corrective action has been initiated but is not complete and the auditor has reason to believe management fully intends to address the concern.

# SCHEDULE OF CONSTRUCTION PROJECTS

APPENDIX C

Project Name	Fiscal Year	Original Funding Amount	De-auth Funding Amount	Total Project Funding to Date	Expended Current FY	Expended Prior FY's	Total Project Expended to Date	Total Unspent as of 06/30/06
New High School - South	2001	\$ 1,576,700	\$ -	\$ 1,576,700	\$ -	\$ 1,576,700	\$ 1,576,700	\$ -
	2002	11,237,167	88,050	11,325,217	315,782	11,009,435	11,325,217	-
	2003	8,465,100	-	8,465,100	172,050	8,272,293	8,444,343	20,757
	2004	2,946,200	-	2,946,200	78,742	2,854,661	2,933,403	12,797
New High School - North	2001	1,576,700	-	1,576,700	-	1,576,700	1,576,700	-
	2002	13,947,700	-	13,947,700	13,850	13,933,850	13,947,700	-
	2003	11,623,200	-	11,623,200	236,543	11,363,663	11,600,206	22,994
	2004	4,133,300	-	4,133,300	185,836	3,753,150	3,938,986	194,314
	2006	1,500,000	-	1,500,000	1,454,534	-	1,454,534	45,466
Frankford Elementary Renovations	2003	1,600,400	-	1,600,400	45,615	66,875	112,490	1,487,910
	2005	557,700	-	557,700	1,673	-	1,673	556,027
	2006	836,300	-	836,300	-	-	-	836,300
East Millsboro Elementary Renovations	2003	1,694,500	-	1,694,500	221,168	250,153	471,321	1,223,179
	2005	915,200	-	915,200	296,366	-	296,366	618,834
	2006	1,372,800	-	1,372,800	163,432	-	163,432	1,209,368

# SCHEDULE OF CONSTRUCTION PROJECTS - CONTINUED

APPENDIX C

Project Name	Fiscal Year	Original Funding Amount	De-auth Funding Amount	Total Project Funding to Date	Expended Current FY	Expended Prior FY's	Total Project Expended to Date	Total Unspent as of 06/30/06
Education Complex Renovations	2004	\$ 445,800	\$ -	\$ 445,800	\$ 197,336	\$ 6,840	\$ 204,176	\$ 241,624
	2006	2,644,200	-	2,644,200	-	-	-	2,644,200
Lord Baltimore Elementary Renovations	2004	803,800	-	803,800	192,525	610,855	803,380	420
	2005	6,584,500	-	6,584,500	5,729,204	2,852	5,732,056	852,444
	2006	1,669,534	-	1,669,534	1,127,940	-	1,127,940	541,594
John M. Clayton Renovations	2004	1,435,800	-	1,435,800	28,684	5,520	34,204	1,401,596
	2005	1,465,500	-	1,465,500	4,397	-	4,397	1,461,103
	2006	5,862,100	-	5,862,100	-	-	-	5,862,100
Georgetown Middle School Renovations	2004	677,800	-	677,800	-	677,800	677,800	-
	2005	12,572,000	-	12,572,000	9,646,242	180,457	9,826,699	2,745,301
Millsboro Middle School Renovations	2004	564,800	-	564,800	505,349	14,537	519,886	44,914
	2005	542,200	-	542,200	183,435	-	183,435	358,765
	2006	2,235,900	-	2,235,900	-	-	-	2,235,900

# SCHEDULE OF CONSTRUCTION PROJECTS - CONTINUED

APPENDIX C

Project Name	Fiscal Year	Original Funding Amount	De-auth Funding Amount	Total Project Funding to Date	Expended Current FY	Expended Prior FY's	Total Project Expended to Date	Total Unspent as of 06/30/06
Phillip Showell Elementary Renovations	2006	\$ 1,394,000	\$ -	\$ 1,394,000	\$ -	\$ -	\$ -	\$ 1,394,000
<b>Totals</b>		\$102,880,901	\$ 88,050	\$102,968,951	\$ 20,800,703	\$ 56,156,341	\$ 76,957,044	\$ 26,011,907



---

# DISTRIBUTION OF REPORT

---

Copies of Indian River School District's Agreed-upon Procedures Attestation Engagement will be distributed by the Office of the Auditor of Accounts to the following public officials:

Executive Branch

The Honorable Ruth Ann Minner, Governor, State of Delaware  
The Honorable Richard S. Cordrey, Secretary, Department of Finance  
The Honorable Jennifer W. Davis, Director, Office of Management and Budget  
The Honorable Valerie A. Woodruff, Secretary, Department of Education  
Ms. Trisha Neely, Director, Division of Accounting  
Mr. R. Thomas Wagner, State Auditor, Office of the Auditor of Accounts

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable Joseph Biden, III, Attorney General, Office of the Attorney General  
The Honorable Jack Markell, Treasurer, State Treasurer's Office

Other

Ms. Dorcell S. Spence, Associate Secretary - Finance and Administrative Services Branch, Department of Education  
Dr. Susan S. Bunting, Superintendent, Indian River School District